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C O N F I D E N T I A L SECTION 01 OF 02 BUENOS AIRES 002317

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PASS FED BOARD OF GOVERNORS FOR KROSZNER, ROBITAILLE

PASS TREASURY FOR LOWERY, O'NEIL

PASS EXIM BANK FOR MICHELE WILKINS

PASS OPIC FOR JOHN SIMON, GEORGE SCHULTZ

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SUBJECT: BANCO DEL SUR LAUNCHED IN BUENOS AIRES DECEMBER 9

REF: BUENOS AIRES 2216

Classified By: EconOff Chris Landberg for Reasons 1.4 (b,d)

Summary

1. (C) As his last official act in office, President Nestor Kirchner hosted five other South American Presidents for the December 9 signing of the "Founding Act of the Bank of the South" (Banco del Sur). In their public remarks, the Presidents and President-elect Cristina Fernandez de Kirchner emphasized South America's growing independence and highlighted the Banco del Sur's expected contribution to regional integration, poverty alleviation, and investment. The ceremony was a purely political act, as the agreement signed does not specify any key details. The countries' Finance Ministers have 60 days to create the bank's charter. GoA Economy Ministry officials confirm to Post that target capitalization of the bank is \$7 billion, with paid-in capital only 10% (\$700 million) of the total. Argentina, Brazil, and Venezuela are expected to contribute about 60% of the total committed capital (or about \$400 million). These officials deny rumors that China and Iran will provide financial support. End Summary.

Six Presidents Sign, Emphasizing Region's Independence

2. (C) Late on December 9, in a three-hour ceremony, the Presidents of Argentina, Bolivia, Brazil, Ecuador, Paraguay, and Venezuela signed the "Founding Act" of the Banco del Sur. Uruguay's Ambassador represented Uruguayan President Tabarez Vazquez, who reportedly will sign the document later. Colombia's President Uribe was included as a signatory in the advance copy of the document that Post acquired last week, but Uribe did not participate in the ceremony.

3. (C) The Finance Ministers of these seven countries approved the founding act document on October 9 in Rio de Janeiro. The Presidents initially planned to sign the document in early November, but announced in late October that they would postpone it to December. Kirchner's offer to host the signing the day before his wife assumes the Presidency was convenient for the other Presidents, who are all attending the December 10 inauguration, but also assured a higher profile for the event.

4. (U) In their public remarks, the six Presidents and President-elect Cristina Fernandez de Kirchner emphasized Banco del Sur's role in supporting South America's growing

independence from international lenders such as the IMF and World Bank. Presidents Morales (Bolivia), Correa (Ecuador), Duarte Frutos (Paraguay), and Chavez (Venezuela) made the most forceful comments in this regard, criticizing the international financial institutions' lending conditionality, alleged mistreatment of clients, and "bad advice." President Correa argued that the bank would put an end to the "despicable and useless political and financial dependence of South American states on the international organizations." Chavez, in a remarkably short (15-20 minute) speech, stated that the "creation of the Banco del Sur is the continuation of the battle for independence."

15. (U) Several speakers, most notably Brazil's President Lula da Silva and President-elect Cristina Fernandez de Kirchner, highlighted the Banco del Sur's expected contribution to regional integration, social development and poverty alleviation, and investment in infrastructure, science, and technology. Lula commented that the "Banco del Sur will be a truly South American organization...will be fundamental to the integration of our region...and will be the first international bank truly controlled by the countries of our continent." Lula also called on all other South American countries to join the project.

Real Work to Create Bank Still Ongoing

16. (C) The signing ceremony was essentially a political event, since the agreement does not specify key details such as voting power or capitalization. These details are to be defined in the Bank's Charter, which founding member countries are still negotiating. Post's Economy Ministry contacts comment that Argentine and Brazilian officials are working behind the scenes to moderate Venezuela's influence

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in the organization of the bank in order to avoid the overt politicization of the Bank's lending policies. GoA and GoB officials would prefer to create a financial institution that might eventually have some positive impact in terms of financing viable infrastructure projects in the region.

17. (C) Post's contacts acknowledge, nevertheless, that the paid-in capital invested by member nations will be minimal. They confirm that the target capitalization of the Bank is \$7 billion, but emphasize that paid-in capital will be only 10% (\$700 million) of the total. Argentina, Brazil, and Venezuela reportedly will contribute roughly \$4 billion of the total, or about \$130 million each in up-front payments. These same officials deny rumors that China and Iran will provide financial support (reported reftel). However, Post's contacts are unable to provide details as to how remaining committed capital will be financed, given the low budget capacity of Bolivia, Ecuador, Paraguay, and Uruguay. They also question the ability of the bank to leverage these capital contributions and commitments by borrowing in international financial markets.

Summary of Founding Act Agreement

18. (C) According to Post's advance copy, the "Founding Act" document has the signatories agreeing (in Spanish and Portuguese) to the following:

-- Creation of the "Banco del Sur," with the main objectives of financing economic and social development in the member countries, reinforcing integration, and promoting equitable distribution of investments among the members.

-- The Bank's headquarters will be based in Caracas, with branches in Buenos Aires and La Paz.

-- The Bank will finance development projects in key economic sectors, oriented towards improving competitiveness, scientific and technological development, added-value projects, prioritizing the use of primary materials from the

region, reducing poverty, and reinforcing South American integration.

-- The Bank should be self-sustaining and should govern itself in conformance with professional standards.

-- Members will have equal representation, within a democratic voting structure.

-- Economy/Finance Ministers from the founding member countries will conclude negotiations on the Charter (Constituting Agreement) within 60 days of the signing of the Founding Act.

-- The signatories invite other members of the "Union of South American Nations" (UNASUR) to join the Banco del Sur.

Comment

19. (C) The signatory countries are a long way from developing a workable financial institution, and even farther away from the point where such an institution could compete with other multilateral lending institutions operating in the region -- assuming the rumors of large-scale external financing (from Iran, China) are indeed false. In our conversations with representatives of international financial institutions, we do not detect much concern about Banco del Sur. Their confidence is succinctly explained in this readout contributed by our colleagues in the Economic Section in AmEmbassy Caracas, following their meeting with the Chief Economist of the Andean Development Corporation (Corporacion Andina de Fomento -- CAF): "CAF officially welcomes the idea and does not see it as a competing institution because Banco del Sur will do social development projects that CAF might not fund. Furthermore, it takes time and a track record to build the ability to acquire capital on international markets; it takes time for by-laws to be approved by all countries involved; and development banks that are politicized (especially in terms of staff) may not be as effective as those that are shielded from political appointments/direction. I.E., Banco del Sur has a long way to go." End Comment.

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